



THE CITY OF SAN DIEGO

DATE ISSUED: September 30, 2009

ATTENTION: Budget and Finance Committee
Meeting of October 7, 2009

SUBJECT: Fiscal Year 2010 San Diego Redevelopment Agency Budget Impact –
Education Revenue Augmentation Fund and Community Development
Block Grant Payments

STAFF CONTACT: Janice L. Weinrick, Redevelopment Agency Deputy Executive Director

REQUESTED ACTION: That the Budget and Finance Committee recommend that the Redevelopment Agency amend the Fiscal Year 2010 Redevelopment Agency Budget, by project area, to make funds available for payments to the Education Revenue Augmentation fund (“ERAF”) and Community Development Block Grant (“CDBG”) program.

SUMMARY: The State of California (“State”) adopted its FY2009-10 Budget that shifted \$1.7 billion from redevelopment agencies to the State’s ERAF. Of this amount, \$56.7 million is the San Diego Redevelopment Agency’s (“Agency”) share. Amendments to the FY2010 Agency Budget will be necessary to accommodate the ERAF payments as well as potential initiation of CDBG repayment plans.

BACKGROUND: ERAF - The State adopted its FY2009-2010 Budget and companion item AB26 to shift \$2.05 billion in redevelopment tax increment to the ERAF over FY2010 and FY2011. The statewide payment requirement is \$1.7 billion in FY2010 and \$350 million in FY2011. AB26 includes a formula based upon FY2007 tax increment receipts to determine each redevelopment agencies proportional share of the ERAF. The Agency’s proportional share of this shift is estimated at approximately \$56.7 million for FY2010 and \$11.5 million for FY2011. FY2010 payments are due to the counties on or before May 10, 2010.

CDBG – The Office of the Inspector General (“OIG”) of the U.S. Department of Housing and Urban Development (“HUD”) audited the City’s CDBG program with specific attention to CDBG funds utilized within redevelopment project areas. The OIG issued its audit report to HUD’s Office of Community Planning and Development on December 30, 2008. Among the many findings and recommendation, the OIG asserts the City failed to execute loan agreements and repayment schedules for the CDBG funds recorded as loans from the City to the Agency even though the OIG was provided with City and Agency staff reports and resolutions documenting the transfer of funds to the Agency and the recordation of these transfers as interest bearing loans from the City to the Agency “to be repaid as soon as practicable from tax increment or other appropriate revenues, from the respective project area”.



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In addition, the OIG recommended that HUD require the City to execute written interagency agreements and loan agreements with the Agency for these outstanding loan amounts and initiate repayment plans.

Most of the loans go back to the early years of the respective project areas and are intended to be repaid in the later years of the life of the project area when project area activities would be complete and tax increment available for repayment. Instead, the OIG audit report recommends that HUD require the City to execute written interagency agreements and loan agreements with the Agency for these outstanding loan amounts and to initiate repayment plans at this time, essentially prematurely diverting Agency resources intended for redevelopment to debt service on the CDBG loans.

Representatives from the City and Agency have been engaged in negotiations with HUD on the audit findings. This week, from HUD, Agency and City representatives have agreed upon a proposed payment plan to present to their corresponding agencies for clearance to submit to the OIG.

The proposed terms of a payment schedule relating to the Agency's CDBG debt to the City will be brought forward in a subsequent presentation to the Budget and Finance Committee. The potential FY2010 CDBG repayments are included in the current FY2010 Budget analysis to fully assess the impact of ERAF and CDBG on the current project area budgets. The Horton Plaza, College Grove and North Bay project areas do not have CDBG debt therefore do not reflect CDBG payments. CDBG repayment schedules are proposed to begin in subsequent years for the College Community, Gateway Center West, Mount Hope and Southcrest project areas due to budget constraints and sources and uses of funds analysis.

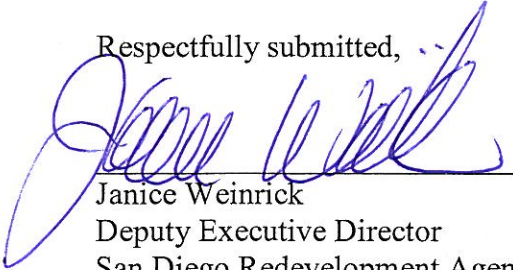
FISCAL CONSIDERATIONS: The attached spreadsheet entitled "FY2010 Redevelopment Agency Budget Summary Relating to ERAF and CDBG Payments" is the result of detailed analysis of each project area's ability to fund its proportional share of the 2010 ERAF payment and applicable potential FY2010 CDBG repayment. Analysis was performed by the Agency's three operating units, Centre City Development Corporation, Southeastern Economic Development Corporation and the City Redevelopment Division. The Low and Moderate Income Housing Set-Aside Funds are not considered as a source for the proposed payments and are not included in numbers reflected in the spreadsheet.

The analysis includes refinement of budgeted projections relating to revenues, expenditures, sources and uses of funds, actual June 30, 2009 fund carryover, current valuation estimates from the County of San Diego, and a reduction in the use of the Non-Housing Lines of Credit in City Heights and Naval Training Center project areas. Each project area is able to fund these payments with a combination of current year projected tax increment revenue and carryover

funds. The "Balance of Funds" intended for new and future year projects and activities is reduced by the ERAF and CDBG payments.

CONCLUSION: The State of California ("State") adopted its FY2009-10 Budget that shifted \$1.7 billion from redevelopment agencies to the State's ERAF. Of this amount, \$56.7 million is the San Diego Redevelopment Agency's (Agency) share. An amendment to the FY2010 Agency Budget is necessary to accommodate the ERAF payments as well as potential initiation of CDBG repayment plans.

Respectfully submitted,



Janice Weinrick
Deputy Executive Director
San Diego Redevelopment Agency

Concurred by,



Jay Goldstone
Chief Operating Officer
City of San Diego

Attachment A – FY2010 Redevelopment Agency Budget Summary Relating to
to ERAF and CDBG Payments

FY2010 REDEVELOPMENT AGENCY BUDGET SUMMARY RELATING TO ERAF AND CDBG PAYMENTS

(\$ represented in thousands)

| PROJECT AREA | 2010 PROJECTED REVENUE (non low/mod housing funds) | | | 2010 PROJECTED EXPENDITURES (non low/mod housing funds) | | | | | | (Note 1) | | |
|----------------------|---|-----------------------------|------------------|--|--------------------------|-----------------|--------------------------------------|-----------------------|---------------------|----------------------|----------------------------------|---------------------------------|
| | TAX INCREMENT | CARRYOVER, BONDS & OTHER | TOTAL REVENUE | TAX SHARING & CITY PAYMENTS | ADMIN & CITY SERVICES | DEBT SERVICE | PROJECT & ACTIVITY COMMITMENTS | TOTAL EXPENDITURES | BALANCE OF FUNDS | 2010 ERAF PAYMENT | PROPOSED 2010 CDBG PAYMENT | BALANCE AFTER ERAF & CDBG |
| CCDC | | | | | | | | | | | | |
| Centre City | \$ 100,014 | \$ 285,414 | \$ 385,428 | \$ 31,321 | \$ 11,628 | \$ 26,791 | \$ 271,236 | \$ 340,976 | \$ 44,452 | \$ 36,185 | \$ 1,500 | \$ 6,767 |
| Horton | \$ 6,850 | \$ 9,028 | \$ 15,878 | \$ - | \$ 873 | \$ 3,091 | \$ 8,457 | \$ 12,421 | \$ 3,457 | \$ 3,446 | N/A | \$ 10 |
| CITY DIVISION | | | \$ - | | | | | | | | | |
| Barrio Logan | \$ 544 | \$ 445 | \$ 989 | \$ 68 | \$ 382 | \$ - | \$ 238 | \$ 688 | \$ 301 | \$ 199 | \$ 10 | \$ 91 |
| City Heights | \$ 9,325 | \$ 12,006 | \$ 21,331 | \$ 4,462 | \$ 1,263 | \$ 1,370 | \$ 2,963 | \$ 10,057 | \$ 11,273 | \$ 3,936 | \$ 470 | \$ 6,867 |
| College Community | \$ 864 | \$ 1,269 | \$ 2,133 | \$ 196 | \$ 262 | \$ - | \$ 1,360 | \$ 1,818 | \$ 315 | \$ 261 | \$ - | \$ 54 |
| College Grove | \$ 676 | \$ 1,438 | \$ 2,115 | \$ 110 | \$ 78 | \$ - | \$ - | \$ 188 | \$ 1,927 | \$ 228 | N/A | \$ 1,699 |
| Crossroads | \$ 2,811 | \$ 5,566 | \$ 8,377 | \$ 915 | \$ 490 | \$ - | \$ 855 | \$ 2,259 | \$ 6,118 | \$ 1,374 | \$ 734 | \$ 4,010 |
| Grantville | \$ 982 | \$ 619 | \$ 1,601 | \$ 246 | \$ 410 | \$ - | \$ 70 | \$ 726 | \$ 875 | 170.6 | \$ 100 | \$ 605 |
| Linda Vista | \$ 83 | \$ 1,096 | \$ 1,178 | \$ - | \$ 45 | \$ - | \$ 142 | \$ 186 | \$ 992 | 35.9 | \$ 100 | \$ 856 |
| Naval Training Ctr | \$ 3,947 | \$ 4,184 | \$ 8,131 | \$ 987 | \$ 383 | \$ 496 | \$ 2,052 | \$ 3,919 | \$ 4,212 | \$ 1,437 | \$ 175 | \$ 2,601 |
| North Bay | \$ 7,023 | \$ 10,556 | \$ 17,579 | \$ 1,756 | \$ 447 | \$ 672 | \$ 1,987 | \$ 4,861 | \$ 12,718 | \$ 2,616 | N/A | \$ 10,102 |
| North Park | \$ 5,728 | \$ 23,039 | \$ 28,766 | \$ 1,546 | \$ 608 | \$ 9,313 | \$ 3,833 | \$ 15,300 | \$ 13,467 | 2090.2 | \$ 220 | \$ 11,157 |
| San Ysidro | \$ 4,226 | \$ 3,400 | \$ 7,626 | \$ 1,939 | \$ 654 | \$ - | \$ 1,034 | \$ 3,627 | \$ 3,998 | 1356.3 | \$ 225 | \$ 2,417 |
| SEDC | | | \$ - | | | | | | | | | |
| Central Imperial | \$ 1,762 | \$ 4,021 | \$ 5,783 | \$ 278 | \$ 691 | \$ 793 | \$ 226 | \$ 1,988 | \$ 3,794 | \$ 210 | \$ 100 | \$ 3,484 |
| Gateway Ctr West | \$ 253.1 | \$ 225.9 | \$ 479.0 | \$ - | \$ 116 | \$ 117 | \$ 16 | \$ 249 | \$ 231 | \$ 148 | \$ - | \$ 83 |
| Mount Hope | \$ 1,136.8 | \$ 1,534.7 | \$ 2,671.5 | \$ 125.0 | \$ 897 | \$ 499 | \$ 69 | \$ 1,590 | \$ 1,082 | \$ 856 | \$ - | \$ 226 |
| Southcrest | \$ 1,720.0 | \$ 7,886.2 | \$ 9,606.2 | \$ 210.0 | \$ 929 | \$ 990 | \$ 1,118 | \$ 3,247 | \$ 6,359 | \$ 1,099.6 | \$ - | \$ 5,259 |
| TOTAL | \$ 147,944 | \$ 371,727 | \$ 519,671 | \$ 44,158 | \$ 20,154 | \$ 44,133 | \$ 295,654 | \$ 404,100 | \$ 115,571 | \$ 55,649 | \$ 3,634 | \$ 56,288 |

(Note 2)

Note 1 The CDBG payments presented in this analysis represent the first year payments of an overall CDBG repayment plan under negotiation with HUD. The comprehensive CDBG repayment proposal will be brought forward for Council and Agency consideration as soon as preliminary agreement is reached with HUD.

Note 2 The FY 09 ERAF payments totalling \$11.5M that were stayed due to a suit by the California Redevelopment Association are included in the carryover numbers.